SEARS CANADA ANNUAL REPORT 1996

This is SEARS TODAY!

SEARS

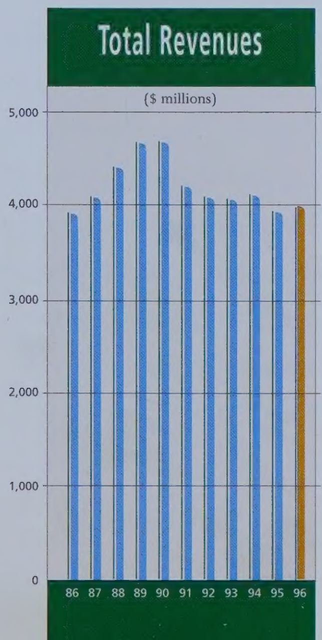
this is Sears today!

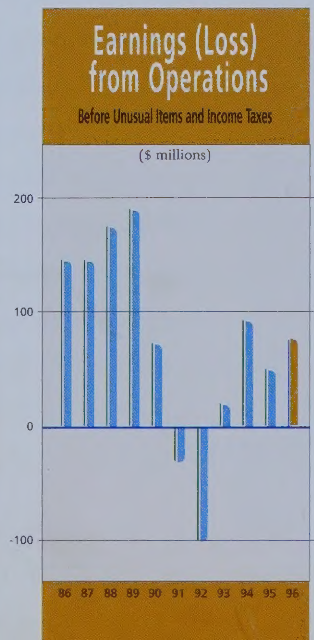
Sears is Canada's largest single retailer of general merchandise, with department and specialty stores as well as catalogue selling units located across Canada. The Company emphasizes quality and service in appealing to a broad cross-section of Canadian consumers.

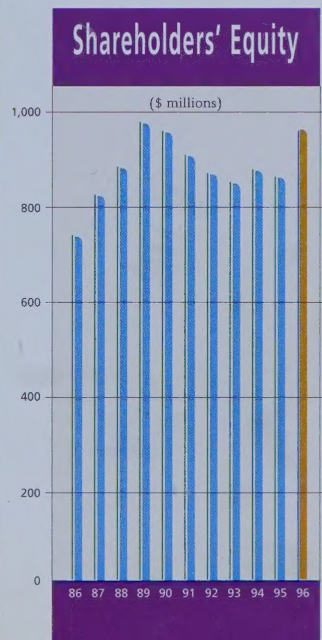
The Company's vision is to be Canada's most successful retailer by providing our customers with total shopping satisfaction, our associates with opportunities for career advancement and personal growth, and our shareholders with superior returns on their investment.

SEARS FINANCIAL HIGHLIGHTS

For the 52 weeks ended December 28, 1996 and December 30, 1995	1996	1995
RESULTS FOR THE YEAR (in millions)		
Total revenues	$ 3,956	$ 3,918
Interest expense	96	132
Earnings from operations before unusual items and income taxes	70	43
Unusual items expense	45	21
Income tax expense	16	10
Net earnings	9	12
YEAR END POSITION (in millions)		
Working capital	$ 741	$ 661
Total assets	2,734	2,554
Shareholders' equity	949	856
PER SHARE OF CAPITAL STOCK (in dollars)		
Net earnings	$ 0.09	$ 0.13
Dividends declared	0.24	0.24
Shareholders' equity	8.98	9.02







This is SEARS TODAY!

To our Shareholders

In 1996, our Company's strategies to create a new Sears began to take hold and provide a solid platform for future growth in revenue and earnings.

Buoyed by the strongest fourth quarter in recent history, net earnings for the year, before unusual items, increased by 45 percent to $34.3 million on total revenues of $3.96 billion. Although this represents a significant improvement, the absolute level of our results is below our standards.

Our strategies to improve processes and reduce costs in all aspects of the business made a strong contribution to these improved results. Restructuring charges in support of productivity initiatives totalled $45 million. Net earnings, after unusual items, were $8.8 million or $.09 per share compared to $12.2 million or $.13 per share in 1995.

This beginning of Sears Canada's transformation results from numerous strategies designed to respond to the challenging nature of the retail industry in Canada. Today we are focused on serving our key customers – women and their families – making our stores more exciting places to shop, and improving our assortments and service in catalogue. At the same time, we are committed to a continuing focus on lowering our costs to improve our competitive position.

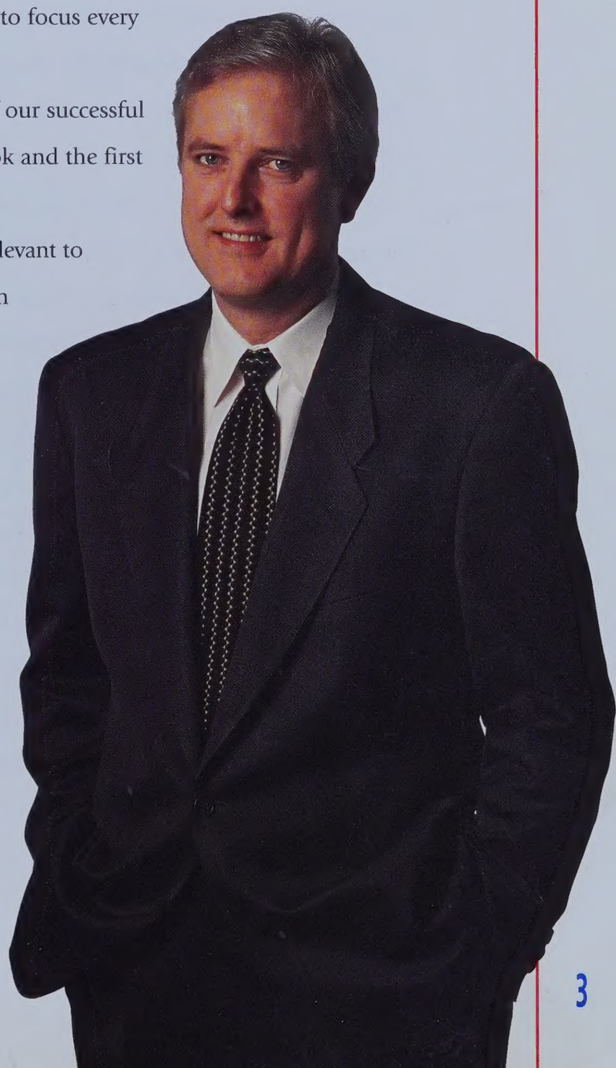
Much was accomplished in 1996. We expanded new store formats such as Sears Whole Home Furniture Stores and dealer stores. We brought innovative merchandising strategies to the retail marketplace, rolling out Sears Brand Central, with its expanded offering of national brand appliances and electronics, and introduced newly merchandised housewares departments nationally.

We undertook a national program to respond to our target customers' needs by greatly increasing the selection of apparel and soft home decor lines in our stores, especially in Kitchener, Oshawa, Erin Mills and Mississauga, Ontario, where furniture was moved to free-standing stores. We retrofitted the look of select stores across the country. We added national brands with strong customer appeal and growth potential, and expanded our strong, exclusive private brands.

We remerchandised our catalogues to broaden the assortment, sharpened our prices, increased the number of pick-up locations and added innovative services like a unique Special Occasions Gift Registry to better serve customers across the country.

We continued the process of re-engineering our entire merchandise procurement system, streamlining the process to a state of the art, almost paperless operation, considered one of the best in North America, with improved cost efficiencies. Inventory control, turnover, order fill-rates, and on-time delivery all improved in 1996, increasing and enhancing customer satisfaction.

We continued to streamline our internal structure to focus every resource of the Company on profitable growth.



We relaunched the Sears Card – the centrepiece of our successful Sears Club customer loyalty program – with a new look and the first of several planned partners, Shell Canada.

These and other initiatives have made Sears more relevant to today's Canadian consumers. In 1997, supported by an improving economic outlook, we plan to accelerate the investment in our future.

The focus of our efforts and investment capital will continue to be directed at our core businesses. The important Metro Toronto market will be substantially repositioned in 1997 to capture the significant growth opportunities that are available to us. Apparel, cosmetics, accessories and soft home categories will be expanded in both space and assortment. We will continue to move our furniture business off the mall into 7 additional Sears Whole Home Furniture Stores to complete our roll-out in the Toronto market.

We will continue to aggressively expand our dealer store network and will complete the roll-out of our successful Sears Brand Central format in all stores in the Company.

Our commitment to grow our apparel market share will be a priority in 1997 with significant upgrades in store fixturing, merchandise presentation, fashionability, assortment, and in-store service.

In our catalogue business we will continue to focus on expanded and enhanced customer services and assortments designed to both attract new customers and stimulate the amount and frequency of catalogue purchases on the part of our existing healthy customer base. Creating more synergy between our catalogue and retail sales channels will be a priority in 1997 to maximize our unique capability to deliver market leading assortment breadth to Canadian consumers.

Our marketing efforts will concentrate on the clear positioning of Sears recognized strengths with our targeted customer such as quality, value, service, convenience, trust and dependability. We will strengthen and reinforce with clarity and conviction our total value proposition which is in many ways unique to Canadian retailing.

Developing a greater local market focus to respond to the divergent merchandise needs of our broad customer base will also be a priority in 1997. To this end we have reorganized our merchandise, marketing, and store operations structure to better align the Company to pursue our strategic priorities.

We expect 1997 to be another year of intense competition. Consumers will remain singularly focused on value, seeking the best quality and price they can find. We will aggressively pursue market share growth while continuing our efforts to reduce our cost structure.

With the continued dedication, commitment and effort of our associates throughout our Company, we believe Sears today is well positioned for a new era of growth and improved returns to our shareholders.

Executive Changes

There were a number of changes in Sears Canada's executive structure during 1996. As the new Chairman of the Board, I would like to pay tribute to several people.

The success of Sears Canada is a reflection of the strong management and vision of both Don Shaffer, who preceded me as Chief Executive Officer and has since returned to the United States to head up Sears, Roebuck and Co.'s Western Auto Division, and Russ Davis, who retired as Chairman of Sears Canada during the year.

Sears Canada owes a debt of gratitude to both Don Shaffer and Russ Davis for responding to fundamental changes in the Canadian retail environment and for putting in place an organization capable of succeeding when times are bad and excelling when times are good. We thank them both.

Jim Clifford will be bringing his considerable talent and experience to the role of President and Chief Operating Officer of Sears Canada. John Butcher, a 20-year Sears veteran, has been appointed Senior Vice-President and Chief Financial Officer. Michael Miller, our Vice-President of Strategic Planning and Quality, has accepted an important assignment with Sears, Roebuck as Vice President, Customer Relationship Marketing and we thank him for his invaluable contribution to Sears Canada during his four years with us.

Your new executive looks forward to the honour and challenge of leadership of Sears Canada.

On a sadder note, Sears Canada would like to reflect upon the passing of Jack Barrow, a Director and Honourary Director since his retirement as Chairman of the Board and CEO of Sears Canada from April, 1966 to May, 1979. As one of the first members of the Retail Council of Canada, and later Chairman of the Business Council of Canada on National Issues, Mr. Barrow helped build solid foundations not only for Sears Canada, but also the retailing industry as a whole. His memory and vigour live on throughout the Corporation.

Paul Walters

Paul Walters
Chairman and CEO

Investing in our Future

Repositioned for Long Term Revenue Growth

The future belongs to those companies that understand that the marketplace is not just changing, the marketplace is change. In 1996, Sears continued to change, concentrating resources on initiatives focused on businesses, merchandise and markets which will improve shareholder returns.

In major appliances we seized the opportunity to improve market share by rolling out Sears Brand Central, with its dramatically expanded selection of brand name appliances and electronics, to an additional 62 stores across the country. Tests began on a new, small-market format of Sears Brand Central, supported by BrandsNet, a computerized kiosk system that allows customers to instantly access product information on the hundreds of styles and brands of appliances Sears offers.

Sears Brand Central program is the model for Sears growth going forward, combining national brands with Sears strong exclusive house brands for an outstanding selection, partnered with Sears renowned service. We believe this is an unbeatable formula: the brands, selection and service Canadians want from the store they trust, and we plan to bring this formula to other Sears businesses.

Take a look at Sears Whole Home Furniture Stores Today!

We continued our strategy to expand our market share in furniture, opening new Sears Whole Home Furniture Stores in Whitby, Brampton and Mississauga, Ontario. These free-standing, 35,000-square-foot stores offer triple the selection of home furnishings traditionally offered in Sears department stores. Inventory is customized to each store's market and Whole Home consultants are specially trained to help customers identify their particular style and colour requirements so that the furnishings they choose provide long-term satisfaction. The result: average furnishings transactions at Sears Whole Home Furniture Stores are three times what they are in our mall-based stores and overall sales are exceeding our expectations. Plans are underway to expand this program in 1997 and beyond.

The Sears Whole Home Furniture Store initiative, our most successful as a stand-alone concept, provides Sears with the opportunity to expand key businesses in our mall-based stores. As furniture is removed from our mall-based stores and transferred to free-standing furniture stores, we are renovating our mall stores and increasing the space devoted to other profitable merchandise categories. Our focus in the mall stores is to create broader and deeper assortments in apparel, cosmetics, accessories, and soft lines associated with the home.

We are making apparel and soft home merchandise the centrepiece of our mall stores by adding greater depth and selection of national and house brands. We're also expanding our cosmetics and fragrances, accessories, and bed and bath departments to better provide our customers with the products and selection they want from Sears.

To strengthen our position in smaller communities, we have continued to expand our national network of dealer stores. Locally operated, dealer stores provide full catalogue service, plus a large selection of major appliances, electronics, floor-care and lawn and garden power products. Backed by Sears reputation for quality products and after-sales service, these stores provide customers with the opportunity to shop in person for this big-ticket merchandise. Response has been excellent and 41 new locations were opened in 1996, bringing the national total to 60, with plans to open more in the future.

We also continued our store revitalization program to uplift environments and merchandise at Sears stores across the country. In each instance, store remodelling is tailored to suit the local community and match the merchandise mix to the market.

Major remodellings in 1996 included Oshawa and Erin Mills in Ontario; Moncton, New Brunswick; Chicoutimi and St. Jerome, Quebec; and Saskatoon, Saskatchewan stores. Our Hull store in Quebec was partially renovated during the year.

Through all these initiatives, Sears is taking a proactive approach to growth. The investments we have made in the past few years and which we are continuing to make will secure Sears Canada's leadership within the Canadian retail market and provide improved returns for shareholders.

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whole home®

Sears Whole Home Furniture Stores feature one of the country's largest selections of furniture under one roof and assert Sears growing dominance in the Canadian furniture market. These free-standing furniture stores allow Sears to remove furniture from nearby mall-based department stores and use that space to greatly expand their fashion apparel and home fashion assortments.

Sears Whole Home Furniture Stores

- 35,000 square feet
- Triple the selling space for furniture of traditional Sears department stores
- Sales consultants trained in colour and style counselling for long-term customer satisfaction
- More than 10,000 custom options on upholstered goods
- 1995 – first tested in Kitchener, Ontario
  1996 – opened stores in Whitby, Mississauga and Brampton, Ontario
  1997 – Burlington, Ontario store opens in mid-March
  Six more planned for 1997

Focused on Results

Innovative New Program and Service Initiatives

Sears Today is focused on revenue growth, driven by innovative initiatives that have caught the attention of consumers and are an integral part of our strategy to increase market share.

In 1996, we brought a new energy and focus to our advertising with the highly successful "Show Me" campaign that is redefining Sears image.

We made it even easier to shop Sears by promoting the conveniences of both retail and catalogue shopping – for example, indicating the items in Sears retail flyers that can be ordered by phone for delivery from catalogue if the customer is unable to visit their local retail store. ShoePhone kiosks were tested in several stores to offer retail customers easy access to Sears incomparable catalogue selection.

To improve convenience for our catalogue customers, in 1996 we added 123 new locations across Canada to our network of pick-up locations in dealer stores, retail stores, outlet stores and independent agents. We now have almost 1,750 pick-up locations and our goal is 2,000 by the year 2000.

We continued to focus on the needs and wants of our target customers with new formats and merchandise. We began the national roll-out of a newly merchandised housewares department, featuring a broad range of high-demand national brands with greatly expanded cookware sections and a new line of Sears own Kenmore small appliances and Whole Home branded gourmet cookware.

To capitalize on a major opportunity in women's wear we launched new-format specialty size shops in 80 stores, updating presentations and increasing the selection by expanding our exclusive Image and V.I.Petites lines and adding new national brands. This initiative was supported with a targeted direct-mail campaign to increase our market share in this high-growth apparel segment.

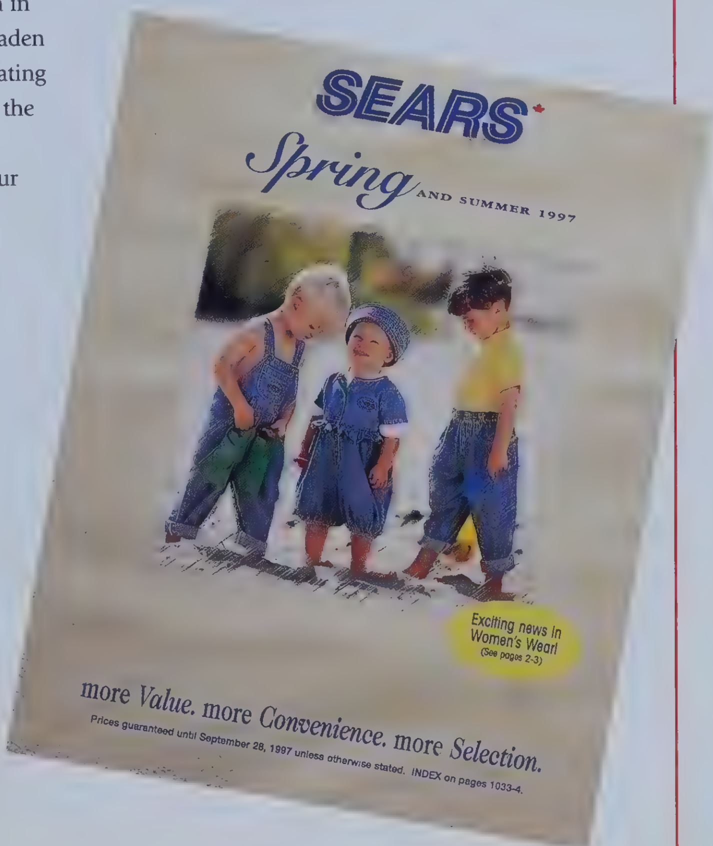
We focused on improving customer service by continuously analyzing customer feedback. Our new strategy attunes Sears associates to what customers want, how to give it to them, and how to measure our performance to make sure we're delivering on our service promise. In part, we've done that by simplifying processes within our stores to increase the focus on those things that are most important to our customers.

To increase the number of customers taking advantage of catalogue shopping, we developed a customer management system which compiles information on customers and their purchasing habits and allows us to serve them as individuals rather than as households. This increases customer satisfaction and is more cost effective.

We launched The Special Occasions Gift Registry as a unique way for consumers to register and give gifts. Customers can now call Sears toll-free to register a gift list or enquire about another customer's gift registry ... for any celebration. For those customers using the Registry for weddings, a comprehensive registry kit is sent to them to help them prepare their gift list. A special selection of wedding gifts has also been added to our catalogue. In Spring 1997, a special baby gift guide kit will be available to customers wishing to use the Registry for baby gifts. The Registry is a natural enhancement to Sears Ship a Gift and gift box services.

Within the Sears catalogue, we took action to drive revenues and meet the needs of our customers. We remixed the merchandise offerings to increase value, and expanded the lower end of our product mix to compete more effectively. In Spring 1997, we will add the Sears Brand Central concept to our catalogue selection in major appliances and electronics and broaden the assortment of specialty sizes by integrating them throughout the fashion selection of the catalogue.

We continue to refine and enhance our specialty services. Our Sears PhonePlan, offering 25% off all long distance calls charged to the Sears Card, has resulted in Sears, with more than 300,000 Sears PhonePlan members, becoming the second largest re-seller of long-distance telephone services in Canada. Mature Outlook – our subscription loyalty program for shoppers aged 50-years and older, has enrolled 830,000 members since its launch three years ago.



This is SEARS TODAY!

Sears has more card holders than any other single credit card issuer in Canada. In 1996, we built on this strength, launching a redesigned card with new features and benefits. The new Sears Card, issued to more than 6 million customers, now features international standard 16-digit account numbers, enhanced security with a hologram and a prominent Sears Club logo to more closely link Sears Card and Sears Club.

Our goal is to increase the value of the Sears Card and Sears Club by increasing opportunities to collect Sears Club points. We started with Shell Canada as our first relationship marketing alliance. The new Sears Card is accepted at more than 2,500 Shell gas stations throughout Canada. As Shell Canada is also an Air Miles participant, our customers get both Air Miles travel miles and Sears Club points for each purchase.

In 1996, we built on our portfolio of credit customers, adding almost 403,000 new accounts with our Rapid Credit program, which allows us to issue a Sears Card immediately to bank card holders.

Sears Club members are also receiving an array of special offers targeted to their specific interests and lifestyles. Our ability to customize our offerings is based on the extensive customer data base detailing the preferences of each of our customers based on their past purchases. The result: increased sales and more satisfied customers.

Take a look at Sears Brand Central Today!

Focused on Productivity

Continuously improved productivity is essential to the success of any company. In 1996, Sears Canada continued its focus on improving operating efficiency, effectiveness and productivity.

In the past three years, we have re-engineered our merchandise procurement process – from sourcing of merchandise to stocking of store shelves to replacing the goods as they are sold. We are now one of the North American leaders in Electronic Data Interchange, integrated with our suppliers to provide seamless ordering, receiving, distribution, stocking, and replenishment. In 1996 we continued to progress in this area by instituting a system of electronic payment and remittance.

In 1996, we redesigned and centralized the return of merchandise to our vendors. This new process improved operating efficiency and insured that Sears received proper credit for returns.

Investment in new technologies and systems continued in 1996 to be focused on improved customer service and improved productivity. 1996 saw Sears become part of the Internet with a home page for catalogue and travel. A new customer information system was installed to better target the distribution of catalogues. In 1996, the Company invested in new technology in support of our strategic initiatives, ranging from the relaunch of the Sears Card to re-engineering of inventory management in our stores, to improving catalogue customer service.

During the year, Sears focused on improving the cost structure of our business. This strategic initiative supported by new processes and new technology challenged every aspect of the organization. Virtually every department, function and activity was reviewed during the first and second quarters of 1996. The benefits of the Company-wide restructuring announced at the end of the second quarter will position the Company to compete more effectively in the years ahead.

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SEARS Brand Central®

This is SEARS TODAY!

The Company's successful, dramatically expanded appliance and electronics department – Brand Central – offers Sears customers a vast selection of the brands they want at the store they trust. In 1997, Sears will reconfigure the Brand Central concept and roll it out to smaller stores, in conjunction with BrandsNet, a computerized kiosk currently being tested, which offers information on more than 740 products.

Sears Brand Central

- Offers more than 27 national brands of major appliances and home electronics, as well as a range of sewing machines and vacuum cleaners in addition to Sears best-selling Kenmore line
- All merchandise backed by Sears unsurpassed parts and service organization
- 1994 – opened in 4 stores
  1995 – expanded to 21 stores
  1996 – major initiative: Sears Brand Central now in 83 stores
  1997 – 23 additional stores planned

FRIGIDAIRE GE Kenmore KitchenAid For the way it's made. Whirlpool HITACHI ULTRAVISION JVC RCA SONY Technics

This is SEARS TODAY!

Focused on the Future of the Canadian Family

Few corporations touch as many people in as many communities across Canada as Sears. Sears continues a dedication to Canadian families and their communities that has been a mainstay of the Company for more than four decades.

In 1996, Sears joined with the Canadian Cancer Society to establish a nation-wide, toll-free cancer hotline staffed by health professionals who can provide callers with the latest information on cancer prevention, detection, and treatment.

As one of the primary sponsors, Sears provides the cancer hotline with office space and equipment and assists in promoting the 1-888-939-3333 service through its catalogues and advertising flyers.

A roster of past Sears Ontario Drama Festival alumni who have gone on to become well-known in their fields came out to celebrate the Festival's 50th Anniversary and inspire students to pursue their dreams.

From left to right: actor Greg Spottiswood; Wayne Fairhead, executive director of the Sears Ontario Drama Festival; actor R.H. Thomson; theatre arts critic and arts journalist Mira Friedlander; Bram Morrison, of Sharon, Lois and Bram fame; and actor Yanna McIntosh. ▼

In November, Sears supported a nation-wide campaign to encourage reading and writing among Canadian children by sponsoring Born to Read and Write, the largest family literacy program in Canadian history. Almost two million copies of a book by author and cartoonist, Ben Wicks, designed to give parents tips on helping their children discover the magical world of reading and writing, were given to children in kindergarten to Grade 3.

As part of a multi-year commitment in conjunction with the Toronto Raptors NBA Basketball Team, Sears continues to support the Boys and Girls Clubs of Canada, donating $100 for every slam dunk made by the Raptors during the regular season, for a total contribution of $200,000 over four years. During the holiday season, Sears donates a portion of each sale of the Canadian Living Cookbook and the 'Yeti' stuffed toy to support local children's charities. Over the past few years, Sears has raised more than $1 million through its Christmas fund-raising programs.

SEARS CLUB

Sears Club points are given as a "thank you" for donations made on the Sears Card during the Variety Club Telethon, in Ontario, L'Association de Paralysie Cérébrale and L'Association Canadienne de la Dystrophie Musculaire Telethons in Quebec.

In Ontario, the Sears Ontario Drama Festival celebrated its 50th season as the largest and longest running student drama festival in the world. This province-wide program involves more than 300 high schools and 7,000 students and teachers in Ontario. An important part of Sears sponsorship is to provide students with professional adjudication of their performances, the opportunity to work with professionals in special workshops, and public recognition through the more than 500 awards of excellence that are presented throughout the Festival.

"Project Noah" was initiated by Sears associates across the country in support of our colleagues in Chicoutimi, Quebec after the devasting flood in 1996. Countless donations of all kinds reflected the tremendous generosity and caring spirit of Sears associates.

In these and countless other programs across the country, Sears and its associates continue to respond to the needs and concerns of Canadians by being a vital, caring part of the fabric of life in Canadian communities.

This is
SEARS
TODAY!

Creating a New Sears

Mission

Sears Canada is a full-line, full-service department store and catalogue retailer dedicated to providing its customers with quality merchandise and exceptional service, coast to coast.

Vision

Our vision is to be Canada's most successful retailer … providing total satisfaction for our customers, opportunities for our associates to grow and contribute, and superior returns for our shareholders.

Values

CUSTOMERS: TOTAL SATISFACTION

We believe that our continued success depends upon giving each customer a totally satisfying shopping experience. We provide competitively priced, quality merchandise and exceptional service at all times. We actively seek our customers' ideas to understand their needs for products and services. We maintain the highest standards of integrity and ethical behaviour in all of our dealings.

ASSOCIATES: GROW AND CONTRIBUTE

We believe that a totally satisfying shopping experience can only be created by motivated associates who have pride in their jobs. We provide an open environment in which our associates are motivated to perform at their peak, given the opportunity to grow, the authority to do what they believe is right, and are actively encouraged to contribute to the success of the company.

SHAREHOLDERS: SUPERIOR RETURNS

We believe that the long-term success of our company requires growth within our market segments. We will provide a rate of return on invested capital that will make our shares attractive to buy and hold. We will reward our shareholders with results that are comparable to the most successful companies in our industry.

A Great Place to Shop, Work and Invest

SEARS CANADA

SEARS MD&A and FINANCIAL HIGHLIGHTS

Jim Clifford
President & Chief Operating Officer

SEARS ELEVEN-YEAR SUMMARY

Fiscal year	**1996**	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986
RESULTS FOR THE YEAR (in millions)											
Total revenues	**$3,956**	$3,918	$4,066	$4,032	$4,042	$4,169	$4,642	$4,621	$4,377	$4,079	$3,915
Depreciation	**78**	74	67	69	70	56	55	48	47	45	41
Earnings (loss) from operations before unusual items and income taxes	**70**	43	88	15	(101)	(31)	70	186	175	148	147
Unusual items gain (loss)[2]	**(45)**	(21)	(5)	(5)	(46)	(8)	(31)	0	0	27	(2)
Earnings (loss) from operations before income taxes	**25**	22	83	10	(147)	(39)	39	186	175	175	145
Income taxes (recovery)	**16**	10	38	6	(56)	(10)	19	83	82	73	71
Net earnings (loss)	**9**	12	45	4	(91)	(29)	21	106	96	107	79
Dividends declared	**23**	23	23	23	21	20	20	21	21	21	21
Capital asset additions: Owned	**63**	76	60	37	53	235	204	116	116	54	74
Leased under capital lease	**0**	0	0	0	2	0	0	0	2	9	8
YEAR END POSITION (in millions)											
Accounts receivable	**$1,033**	$ 926	$1,324	$ 1,101	$ 909	$1,090	$1,877	$1,784	$1,496	$1,272	$1,168
Inventories	**491**	507	559	563	628	693	665	807	747	740	714
Net capital assets	**744**	763	800	813	941	997	803	665	572	504	517
Total assets	**2,734**	2,554	2,949	2,746	2,796	3,069	3,581	3,512	3,103	2,793	2,657
Working capital	**741**	661	1,016	888	885	1,112	1,486	1,451	1,177	1,172	1,029
Long-term obligations	**634**	662	1,032	947	1,063	1,245	1,362	1,185	964	944	899
Shareholders' equity	**949**	856	867	845	863	900	948	970	883	825	739
PER SHARE OF CAPITAL STOCK (in dollars)											
Net earnings (loss)	**$ 0.09**	$ 0.13	$ 0.47	$ 0.05	$ (1.04)	$ (0.34)	$ 0.25	$ 1.23	$ 1.11	$ 1.22	$ 0.90
Dividends declared	**0.24**	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24
Shareholders' equity	**8.98**	9.02	9.13	8.90	9.10	10.67	11.25	11.26	10.27	9.43	8.45
FINANCIAL RATIOS											
Return on average shareholders' equity (%)	**1.0**	1.4	5.2	0.5	(10.3)	(3.1)	2.2	11.4	11.2	13.7	11.0
Current ratio	**1.7**	1.7	2.0	2.0	2.1	2.4	2.3	2.1	2.0	2.2	2.1
Return on total revenues	**0.2**	0.3	1.1	0.1	(2.2)	(0.7)	0.5	2.3	2.2	2.6	2.0
Debt/Equity ratio	**46/54**	48/52	59/41	58/42	59/41	61/39	67/33	66/34	65/35	63/37	65/35
Pre-tax margin (%)	**0.6**	0.6	2.0	0.3	(3.6)	(0.9)	0.8	4.0	4.0	4.3	3.7
NUMBER OF SELLING UNITS AND CATALOGUE PICK-UP LOCATIONS											
Retail stores	**110**	110	110	110	109	106	97	92	84	80	77
Furniture stores	**4**	1	0	0	0	0	0	0	0	0	0
Dealer stores	**60**	19	4	0	0	0	0	0	0	0	0
Outlet stores	**9**	10	11	12	13	15	18	17	16	15	15
Catalogue pick-up locations	**1,746**	1,623	1,542	1,483	1,579	1,701	1,701	1,708	1,726	1,719	1,625

[1] Certain amounts have been restated to reflect accounting changes related to the consolidation of the Company's proportionate share of the assets, liabilities, revenues and expenses of real estate joint ventures as recommended by the Canadian Institute of Chartered Accountants. The change in policy, effective in 1995, has been applied retroactively.

[2] Extraordinary items have been restated in 1987 and 1986 to reflect the reclassification of items from extraordinary items to unusual items. All amounts are restated in pre-tax dollars and the income tax amounts have been adjusted accordingly.

Management's Discussion & Analysis

Sears is Canada's largest single retailer of general merchandise, with department and specialty stores as well as catalogue selling units located across Canada. The Company emphasizes quality and service in appealing to a broad cross-section of Canadian consumers.

The Company's vision is to be Canada's most successful retailer by providing its customers with total shopping satisfaction, its associates with opportunities for career advancement and personal growth, and its shareholders with superior returns on their investment.

OVERVIEW OF CONSOLIDATED RESULTS

For purposes of this discussion, "Sears" or "the Company" refers to Sears Canada Inc. and its subsidiaries together with the Company's proportionate share of the assets, liabilities, revenues and expenses of real estate joint ventures.

The 1996 fiscal year refers to the 52 week period ended December 28, 1996 and comparatively, the 1995 fiscal year refers to the 52 week period ended December 30, 1995.

The following table summarizes the Company's operating results for 1996 and 1995.

(in millions, except per share amounts)	1996	1995
Total revenues	$ 3,955.9	$ 3,918.3
Earnings from operations before interest, unusual items and income taxes	166.3	174.5
Interest expense	96.3	131.9
Earnings from operations before unusual items and income taxes	70.0	42.6
Unusual items expense	45.0	20.8
Income tax expense	16.2	9.6
Net earnings	$ 8.8	$ 12.2
Earnings per share	$ 0.09	$ 0.13

Consolidated revenues increased by $37.6 million or 1.0% over the previous year.

The Company's earnings from operations before unusual items and income taxes were $70.0 million in 1996, a significant improvement compared to earnings of $42.6 million in 1995. Improvements in inventory management and controls, and operational cost reductions helped to offset slight margin erosion due to a highly competitive retail environment. In addition, interest expense declined by $35.6 million due to lower interest rates and higher average amounts securitized in 1996. (Refer to the section entitled "Analysis of Funding Costs" on page 20).

Unusual Items

In 1996, the Company recorded a pre-tax expense of $45.0 million with respect to the following unusual items:

- An expense of $42.2 million, including severance, was recorded for restructuring of business units and processes.
- A loss of $6.2 million was recorded on the closures of a warehouse in Regina, Saskatchewan, the accounting centre in Guelph, Ontario and a transportation terminal in Montreal, Quebec. These closures reflect the consolidation of operations made possible by efficiencies implemented in the merchandise procurement and other processes.
- A gain of $3.4 million was recorded on the sale of two service centres located in Ottawa, Ontario and Saskatoon, Saskatchewan.

Analysis of Total Corporate Tax Expense

(in millions)	1996	1995
Corporate income tax	$ 11.2	$ 4.6
Large corporations tax	5.0	5.0
Income tax expense	16.2	9.6
Provincial capital tax	6.9	9.1
Property tax	54.4	53.0
Payroll taxes:		
CPP/QPP expense	14.1	14.0
Employment insurance expense	24.3	26.3
Health care levies	13.3	13.2
WCB premiums	12.8	12.0
Total corporate tax expense	$ 142.0	$ 137.2

Number of Associates

	1996	1995
Full-time associates	9,033	9,695
Part-time associates	26,263	28,313
Total associates	35,296	38,008

The total number of associates declined by 7.1% in 1996. This reduction is the result of ongoing organizational restructuring, re-engineering of the merchandise procurement process, and improvements in the catalogue order processing system.

Total payroll expense in 1996 was $607.6 million, which represents a decrease of $25.3 million or 4.0% from 1995.

OVERVIEW OF THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS

(in millions)	1996	1995
Cash	$ 201.2	$ 71.0
Accounts receivable	1,033.0	925.6
Inventories	491.1	507.1
Net capital assets	744.4	763.1
Other assets	264.3	287.2
Total assets	$2,734.0	$2,554.0

In 1996, cash increased by $130.2 million primarily due to proceeds of $103.9 million received from the issue of common shares on December 9, 1996. Accounts receivable increased by $107.4 million or 11.6% primarily due to a reduction in the total amount of charge account receivables securitized as at December 28, 1996. Inventories decreased by $16.0 million as a result of continued inventory management efforts.

Accounts Receivable

(in millions)	1996	1995
Charge account receivables	$1,568.5	$1,599.2
Less amount securitized[1]	(961.2)	(1,181.2)
Net charge account receivables	607.3	418.0
Deferred receivables	456.1	429.1
Less amount securitized[1]	(97.6)	–
Net deferred receivables	358.5	429.1
Other receivables	67.2	78.5
Total accounts receivable	$1,033.0	$ 925.6

[1] Refer to the section entitled "Securitization of Charge Account Receivables" on page 19.

Deferred receivables represent credit sales not yet billed to customers' accounts. These credit sales are billed to the customers' accounts at the end of an interest-free deferral period.

LIABILITIES

(in millions)	1996	1995
Accounts payable and accrued liabilities	$ 797.8	$ 750.9
Long-term obligations due within one year	183.2	127.0
Long-term obligations	634.2	661.7
Other liabilities	170.1	158.0
Total liabilities	$1,785.3	$1,697.6

Total liabilities of $1,785.3 million increased by $87.7 million or 5.2% compared to 1995, primarily due to an increase in accounts payable and accrued restructuring costs.

Liquidity

As at December 28, 1996, the ratio of current assets to current liabilities was 1.7:1 which is unchanged from the prior year. Working capital was $741.0 million as at December 28, 1996 compared to $661.1 million as at December 30, 1995. The increase in working capital is primarily attributable

to a reduction in the amount of charge account receivables securitized at December 28, 1996, and the cash received from the issue of common shares on December 9, 1996.

FINANCING ACTIVITIES

The Company has the flexibility to raise funds through bank borrowings, by issuing equity and corporate debt securities, and through the sale of undivided co-ownership interests in its portfolio of charge account receivables, including deferred receivables.

In 1996, the Company carried out the following significant financing activities:

- On January 5, 1996, Sears Canada Inc. issued $100.0 million of 7.80% unsecured debentures due March 1, 2001.
- On April 1, 1996, the outstanding 15.125% Series V secured debentures of Sears Acceptance Company Inc. in the amount of $66.4 million matured.
- On October 22, 1996, Sears Canada Receivables Trust – 1996 (Trust 3) was established. This new financing vehicle allows the Company to securitize charge account receivables, including deferred receivables.
- On December 9, 1996, the Company issued 10,323,810 common shares for net proceeds of $103.9 million.

During 1996, the Company repaid a total of $71.3 million of long-term obligations with an average interest rate of 14.8%.

During 1997, approximately $183.2 million of long-term obligations with an average rate of 9.3% will mature.

Securitization of Charge Account Receivables

Sears Acceptance Company Inc. ("Acceptance"), a wholly owned subsidiary of Sears, purchases all Sears Card charge account receivables (including deferred receivables) generated by merchandise and service sales. Through the Company's securitization program, Acceptance sells undivided co-ownership interests in the charge account receivables (excluding deferred receivables) to Sears Canada Receivables Trust (Trust 1) and Sears Canada Receivables Trust – 1992 (Trust 2) and sells undivided co-ownership interests in its portfolio of charge account receivables (including deferred receivables) to Sears Canada Receivables Trust – 1996 (Trust 3). Trust 1, Trust 2 and Trust 3 are collectively referred to as SCRT.

As the equity units of Trust 1, Trust 2 and Trust 3 are held by independent parties, SCRT is not reflected in the Company's consolidated financial statements and the cost to the Company of the securitization program is reflected as a reduction in the Company's share of service charge revenues.

SCRT is a unique financing vehicle which is able to obtain favourable interest rates because of its structure and the high quality of the portfolio of charge account receivables backing its debt. Since the implementation of its securitization program in 1991, the Company has been able to reduce its debt and interest costs.

Securitization also provides the Company with a ready source of funds for the operation of its business.

Trust 1 – Trust 1, which was established in 1991, issues short-term commercial paper to finance the purchase of undivided co-ownership interests in charge account receivables (excluding deferred receivables).

The commercial paper of Trust 1 is rated A-1+ by CBRS Inc. (CBRS) and R-1(High) by Dominion Bond Rating Service Limited (DBRS), the highest ratings assigned by these rating agencies for commercial paper.

In order to reduce its exposure to short-term interest rates on Trust 1 borrowings, the Company has entered into floating-to-fixed interest rate swaps in the notional amount of $250 million with remaining terms to maturity of up to 6 years. The average amount securitized under Trust 1 in 1996 was $509.0 million, at an average rate of 5.7% ($697.0 million in 1995 at an average rate of 7.6%).

Trust 2 – Trust 2, which was established in 1993, issues long-term senior and subordinated debentures to finance the purchase of undivided co-ownership interests in charge account receivables (excluding deferred receivables).

On December 19, 1995, the Company sold its equity interest in Trust 2 to an independent party. As a result, as of December 19, 1995, Trust 2 is not reflected in the Company's consolidated financial statements and the cost of the Trust 2 portion of the securitization program is reflected as a reduction in the Company's share of service charge revenues.

The senior debentures of Trust 2 are rated A++ by CBRS and AAA by DBRS, the highest ratings assigned by these agencies for long-term debt. The subordinated debentures of Trust 2 are rated A(High) by DBRS.

Trust 3 – Trust 3, which was established on October 22, 1996, finances the purchase of undivided co-ownership interests in Acceptance's portfolio of charge account receivables (including deferred receivables) through drawdowns under revolving senior and subordinated note facilities.

The senior notes of Trust 3 are rated A++ by CBRS and AAA by DBRS, the highest ratings assigned by these agencies for long-term debt. The subordinated notes of Trust 3 are rated A+ by CBRS and A by DBRS.

Summary of Debt Ratings

	CBRS	DBRS
Sears Canada Inc.		
Unsecured debentures	B++(High)	BBB
SCRT		
Commercial paper (Trust 1)	A-1+	R-1(High)
Senior debentures (Trust 2)	A++	AAA
Subordinated debentures (Trust 2)	–	A(High)
Senior notes (Trust 3)	A++	AAA
Subordinated notes (Trust 3)	A+	A

Analysis of Funding Costs

The following table summarizes the Company's total funding costs including the cost of the securitization program:

(in millions)	1996	1995
Interest Costs		
Total debt at end of year	$ 819.5	$ 790.6
Average debt for year	836.6	1,260.0
Interest on long-term debt	$ 82.8	$ 125.4
Other interest (net)[2]	13.5	6.5
Interest expense	$ 96.3	$ 131.9
Average cost of debt	11.5%	10.5%
Securitization Costs[3]		
Amount securitized at end of year	$ 1,058.8	$ 1,181.2
Average amount securitized for year	1,103.9	711.9
Cost of funding	69.2	54.0
Average cost of securitized funding	6.3%	7.6%
Total Funding		
Total funding at end of year	$ 1,878.3	$1,971.8
Total average funding for year	1,940.5	1,971.9
Total funding costs for year	165.5	185.9
Average cost of total funding	8.5%	9.4%

[2] Other interest includes $12.8 million in 1996 ($8.4 million – 1995) for payment of the interest rate differential on floating-to-fixed interest rate swaps.

[3] Securitization costs reflect the cost of Trust 1 and Trust 2 for the fiscal year and the cost of Trust 3 for the period from November 1, 1996 to December 28, 1996. The 1995 comparative figures include the cost of Trust 1 for the fiscal year and Trust 2 for the period from December 19, 1995 to December 30, 1995.

Total funding costs for 1996 decreased by $20.4 million due primarily to the decline in interest rates applicable to the commercial paper issued by Trust 1 and the floating rate debt outstanding of Trust 2 and Trust 3.

Capital Structure

(in millions)	1996	% of Total	1995	% of Total
Current debt:				
Bank advances and short-term notes	$ 2.1	0.1	$ 1.9	0.1
Long-term debt due within one year	183.2	10.4	127.0	7.7
	185.3	10.5	128.9	7.8
Long-term debt	634.2	35.8	661.7	40.2
Total debt	819.5	46.3	790.6	48.0
Shareholders' equity	948.7	53.7	856.4	52.0
Total capital	$1,768.2	100.0	$1,647.0	100.0

SEGMENTED BUSINESS ANALYSIS

MERCHANDISING

(in millions)	1996	1995
Revenues	$3,605.7	$3,539.9
Earnings (loss) from operations before interest, unusual items and income taxes	$ 27.0	$ (3.7)

Merchandising Operating Analysis

Merchandising revenues were $3.6 billion in 1996, which reflects an increase of 1.9% from 1995. Both retail and catalogue operations experienced sales increases in 1996.

Merchandising Revenues by Region

(in millions)	1996	% of Total	% of Total Households[4]
Atlantic	349.9	9.7	7.8
Quebec	783.3	21.7	26.2
Ontario	1,383.3	38.4	36.6
Prairies	636.1	17.6	16.2
BC/Yukon/NWT	453.1	12.6	13.2
Total	3,605.7	100.0	100.0

[4] Total Households is based on Statistics Canada projections for 1996.

Number of Selling Units and Catalogue Pick-up Locations

As at December 28, 1996

	Atlantic	Que.	Ont.	Prairies	BC Yukon NWT	Total
Retail	11	25	43	19	12	110
Outlet	1	0	6	1	1	9
Furniture	0	0	4	0	0	4
Dealer	15	7	14	8	16	60
Catalogue	309	400	500	403	134	1,746

Retail Stores – 110 department stores ranging in size from 24,500 square feet to 162,000 square feet.

Outlet Stores – selling returned and surplus merchandise in stores ranging in size from 25,000 square feet to 104,000 square feet.

Furniture Stores – stores of approximately 35,000 square feet featuring an expanded selection of furniture and decorator rugs.

Dealer Stores – independent locally operated stores serving smaller population centres, selling home appliances and electronics as well as lawn, garden and snow removal merchandise.

Catalogue Pick-up Locations – include 1,498 independent catalogue agent locations, plus catalogue pick-up locations within Sears retail stores, outlet stores and dealer stores, as well as 67 post offices.

During 1996, the Company opened three new **Sears Whole Home® Furniture Stores** and 41 dealer stores. The Company closed its outlet store in Ottawa, Ontario in 1996 and closed an additional outlet store in Toronto, Ontario in January 1997.

Merchandising Gross Floor Area

(square feet – in millions)	1996	1995
Retail gross floor area	13.7	13.6
Merchandise service centres		
Active	6.8	7.3
Sub-leased or dormant	2.8	2.8
Total merchandise service centres	9.6	10.1

Merchandise service centres include two catalogue order fulfilment facilities, five service centres supporting the national retail operations, and 20 service centres supporting specific urban markets.

CREDIT OPERATIONS

(in millions)	1996	1995
Total service charge revenues	$361.6	$369.9
Less: SCRT share of revenues[5]	(69.2)	(54.0)
Net service charge revenues	292.4	315.9
Earnings before interest, unusual items and income taxes	$ 109.1	$144.8

[5] Refer to the section entitled "Analysis of Funding Costs" on page 20.

Service charge revenues earned on the portfolio of charge account receivables decreased by 2.2%. After adjusting for amounts securitized, net service charge revenues decreased by $23.5 million or 7.4% as a result of increased average amounts securitized during 1996 compared to 1995.

Credit operations contributed $109.1 million to the Company's 1996 consolidated earnings before interest, unusual items and income taxes, compared to $144.8 million in fiscal 1995. The decrease of $35.7 million is the result of lower service charge revenues and higher write-offs, in addition to an increase of $15.2 million of revenues allocated to SCRT.

Charge Account Receivables Analysis

(in millions – except average account balances)	1996	1995
Active customer accounts	3.8	3.6
Average outstanding balance of receivables per customer account at year end	$ 424	$ 447
Charge account receivables written-off during the year (net of recoveries)	$49.9	$40.2

Net write-offs as a percentage of the monthly average amounts outstanding were 3.4% in 1996, compared to 2.7% in 1995 and 2.0% in 1994. While this rate has been increasing over the last three years, it continues to be at the low end of industry norms.

Since October 1993, Sears has been accepting third party credit cards in addition to the Sears Card. The chart below details the percentage of sales by method of payment.

	52 weeks ended		
	Dec. 28, 1996	Dec. 30, 1995	Dec. 31, 1994
Sears Card	66%	65%	64%
Third Party Cards	11	10	8
Cash	23	25	28
Total	100%	100%	100%

Total sales processed through credit facilities increased by 2.3% in 1996. The percentage of sales charged by customers to their Sears Card increased to 66% of total sales and the percentage charged to third party cards was 11%. Cash sales declined to 23%. The strengthening of the Sears Card share of the Company's sales was primarily attributable to new account acquisitions through the Rapid Credit authorization program and the relaunch of the new Sears Card together with other Sears programs such as the new alliance with Shell Canada Inc., which further enhanced the value of the Sears Card to Sears customers.

The Company continues to focus on account reactivation and retention programs, coupled with enhancements to the promotional offers made to Sears Card holders and Sears Club members.

PROPORTIONATE CONSOLIDATION OF INTERESTS IN JOINT VENTURES

(in millions)	1996	1995
Revenues[6]	$57.8	$62.5
Earnings from operations before interest, unusual items and income taxes	$30.2	$33.4

[6] Excluded from revenues is the Company's proportionate share of rental revenues earned from retail stores of Sears Canada Inc. of $3.6 million ($3.8 million – 1995).

As at December 28, 1996, the Company held joint venture interests in 20 shopping centres, 18 of which contain a Sears store. The market value of Sears interest in these properties is estimated to be $365 million. It is the Company's policy to have one-third of the properties independently appraised each year, while the appraisals of the remaining two-thirds are reviewed and updated by management. The Company has a 15% to 50% interest in these joint ventures. Sears portion of the debt on these properties is $223.2 million.

RECENT INITIATIVES

Merchandising

- During 1996, Sears continued to improve its merchandise procurement process, an initiative which began in 1993. The objectives of this initiative are to improve order cycle times, product availability and ultimately customer service. With the automation of ordering, acknowledgement and receipt transactions through Electronic Data Interchange (EDI) near completion, the movement toward payment through electronic funds transfer (EFT) will be the focus during 1997.

- **Mature Outlook®** is a customer loyalty program addressed to the growing age 50-plus population segment and provides its membership with exclusive merchandise and service offerings. Program enhancements and coalition marketing with selected sources through Mature Outlook are expected to provide Sears with enhanced customer loyalty and increased revenues into the future. The Mature Outlook program is expanding the Company's base of age 50-plus shoppers at a steady pace. Recently completing its third year, the program had 830,000 members across Canada as at December 28, 1996.
- The Company continued to refine and customize its merchandise mix to focus assortment and store environment on the preferences of its target customer. With the addition of new national labels, the line-up of branded products exceeds 200 including **Boca, Calvin Klein, Indian Motorcycle, Amy Byer, Adidas, Nike, Alan Stuart, Natural Issue, Ikeda, Karen Stevens, Beverly Hills Polo Club, Knights of Round Table, Reebok, Converse, Hang Ten, Enuf, Le Château** and **Squeeze** in apparel; and **Murphy Richards, RCR, Louver Drape, Martex, Dan River, Crowncrafts** and **J.G. Hook** in housewares and bed and bath. In addition, **Dewalt, Ryobi** and **Bosch** power tools have been added to an already strong line-up of **Craftsman®** products.
- Synergies between retail and catalogue operations have been strengthened by installing **ShoePhone** kiosks in selected retail stores. The ShoePhone kiosk enables customers to order shoes via the catalogue if a particular selection is unavailable in the retail store. Hence, the customer has the opportunity to select from Sears full range of footwear products.
- In 1996, Sears initiated an advertising pilot program which permits customers to make their purchases either at a retail store or through the 1-800-26-SEARS catalogue order desk. This advertising initiative, which enhances customer service and convenience, is being piloted in specific merchandise lines. Customers are responding favourably to this initiative and Sears expects to expand this concept in 1997.

Retail

- Remodelled stores in Guelph, Mississauga and Kitchener, Ontario experienced their first full year of operation in 1996. When combined with other market initiatives, positive results were reflected in higher sales and improved margins in these markets.

  The Guelph, Ontario store was re-fixtured to allow for a wider fashion assortment while retaining its furniture display areas. It is the model for mid-sized markets. In the Mississauga and Kitchener, Ontario stores, the furniture departments were moved to newly opened **Sears Whole Home® Furniture Store** locations. The stores were then re-fixtured to accommodate a greater emphasis on and remix of apparel. The Mississauga, Ontario store will be the model for the renovation of stores in the Greater Toronto Area in 1997.
- During 1996, the Company continued with renovations to its retail stores located in Oshawa and Erin Mills, Ontario (based on the Mississauga, Ontario prototype), and Moncton, New Brunswick; Chicoutimi, St. Jerome and Hull, Quebec; and Saskatoon, Saskatchewan (based on the Guelph, Ontario prototype). This remodelling allowed for an uplifted merchandise assortment and the addition of many more national brands.

- Expansion of the **Sears Whole Home Furniture Store** concept, launched in 1995, continued with openings in Whitby, Mississauga and Brampton, Ontario in 1996. These 35,000 square foot stand-alone furniture stores offer customers a vastly expanded selection of home furnishings traditionally offered in Sears department stores and feature a broad selection of furniture, decorator rugs and accent decor items. The opening of these new Sears Whole Home Furniture Stores is in keeping with the Company's objective to expand the merchandise selection and presentation in many of its full-line stores. Sears plans to open up to 25 additional Sears Whole Home Furniture Stores across Canada within the next five years.
- **Sears Brand Central®** departments continued to grow successfully within Sears stores across the country. Since initial rollout in 1995, these dramatically expanded appliance and electronics departments are drawing customers to Sears and attracting widespread media coverage in local markets. During 1996, Sears Brand Central departments were added to 62 Sears stores, bringing the national total to 83. Featuring more than 27 well-known brands, including **KitchenAid, Whirlpool, General Electric, Frigidaire, Amana** and **Jenn-Air** in major appliances, and **Panasonic, Sony, JVC, Pioneer, Hitachi** and **RCA** in home electronics, the Brand Central concept firmly reinforces Sears position as an appliance and electronics retailer having one of Canada's widest assortments of national brand major appliances and home electronics.
- Sears introduced **BrandsNet** in 1996, a product information system that allows Sears to greatly expand its merchandise assortment beyond the space constraints of the retail sales floor. A computerized kiosk with a touch-activated screen allows the customer access to images and product specifications of the 455 models currently in the Sears line as well as an additional 285 national branded models offered in Canada. This kiosk enables a Sears customer to purchase almost any major appliance offered in the Canadian market place. BrandsNet is currently being tested in Cobourg, Kitchener, and Mississauga, Ontario.
- In April 1996, Sears launched a new television and print "Show Me" advertising campaign designed to demonstrate to current and potential customers that Sears is a modern and compelling place to shop. The campaign raises awareness of the Sears name and is designed to showcase a modern and up-to-date presentation of Sears today. The advertisements focus on Sears expanded selection of fashionable and affordable merchandise.

Catalogue

- Catalogue operations launched the **Special Occasions Gift Registry™** in 1996. Customers can now call Sears toll-free at 1-800-211-2111 to register a gift list or enquire about another customer's gift registration. This new service is a natural extension of Sears catalogue business. The Company already has a range of services that allow customers anywhere in Canada to place and ship catalogue orders, and the gift registry complements this network.
- The Company has increased the total number of catalogue pick-up locations to 1,746. The additional locations are predominantly in markets across Canada with new family growth. In 1996, Sears added 123 locations. Sears plan is to have 2,000 catalogue order pick-up locations by the year 2000. This will make catalogue shopping even more accessible and convenient to customers in all regions of the country.

- The dealer store program introduced in 1994, has expanded to a total of 60 stores. The dealer stores are operated under independent local ownership and offer a selection of **Sears®**, **Kenmore®** and other name brand appliances and electronics on display. Dealer stores are designed to bring retail-format appliance and electronics shopping to many smaller markets previously served only through the Sears catalogue.

Credit

- In 1996, Sears completed one of the largest credit card relaunches in Canadian history. In late August, the Company began mailing 6.2 million new Sears Cards across Canada. In relaunching the Sears Card, the Company introduced a wide spectrum of innovative features, improving customer service to maintain its status as a significant credit card in the Canadian marketplace. The new Sears Card conforms to international industry standards of 16-digit account numbers allowing Sears to form strategic alliances with other companies to accept the Sears Card. Sears strategy is to form alliances with a select group of companies to be chosen based on their fit with Sears objectives and the potential benefits to Sears Card customers.
- Sears announced an alliance with Shell Canada in July 1996. Under this alliance, the new Sears Card is accepted at Shell's more than 2,500 participating locations nation-wide giving the Sears Card an increased presence in the marketplace. Sears Club points and/or **Air Miles™** travel miles can be earned for every Shell purchase made on the new Sears Card.
- Sears commenced the reselling of long-distance telephone services in 1995 through the **Sears PhonePlan®** program. This program offers Sears Card holders 25% savings on all 'time of day' billing rates charged by local telephone companies on all national and international calls. As at December 28, 1996, the Sears PhonePlan program had 333,830 members.

CAPITAL EXPENDITURES

The Company expects to commit approximately $159 million for capital expenditures in 1997, compared to capital expenditures of $63.2 million in 1996. Planned expenditures for 1997 include $93 million in retail store enhancements and new Sears Whole Home Furniture Stores.

RISKS AND UNCERTAINTIES

Financial Derivatives

It is the Company's policy to use financial derivatives only to manage quantifiable currency or interest rate risks.

Interest Rates

Trust 1 has financed purchases of undivided co-ownership interests in the portfolio of charge account receivables with the issuance of $311.5 million of commercial paper as at December 28, 1996. To reduce the risk associated with variable interest rates, floating-to-fixed interest rate swap transactions in the notional amount of $250 million have been utilized. This brings the Company's fixed-to-floating funding ratio, including securitized funding, to 65/35, which is within its target ratios.

Foreign Exchange

Sears foreign exchange risk is limited to currency fluctuations between the Canadian and U.S. dollar. The Company's total annual requirement for foreign funds is approximately U.S. $160 million. To minimize this foreign exchange risk, the Company, from time to time, uses forward contracts to fix the exchange rate on a portion of its expected requirement for U.S. dollars. As at December 28, 1996, there were no foreign exchange contracts outstanding.

Leases

Twenty-two of Sears 110 retail stores and one of the four Sears Whole Home Furniture Stores are Company-owned, with the balance held under long-term leases which include favourable renewal options. As a result, the Company's retail store rental expense is expected to remain stable.

Merchandise Sources

A major aim of the merchandise procurement process is to ensure that Sears, together with its merchandise sources, fulfills its promises and obligations to its customers. Sears will continue to work with its merchandise sources to ensure they share this commitment and have the ability to fulfill it. Sears has confidence in its ability to continue to provide the Canadian consumer with high quality merchandise at competitive prices.

Competitive and Economic Environment

Retailing in Canada remains highly competitive, not only in terms of price, but also in product availability and in providing a positive shopping experience. Sears is optimistic about a strengthening in consumer spending in 1997, particularly in big ticket merchandise. Retail sales are expected to show improvement as the effect of lower interest rates, lower personal tax rates and rising consumer confidence will combine to offset the high household debt and employment uncertainty that has carried into 1997.

Outlook

Sears is positioning itself to capture a larger share of consumer spending through its aggressive programs of store renovations and enhanced merchandise assortment and presentation. The Company will continue to concentrate on improving operating efficiencies over the near term and to focus on enhancing its merchandise mix, product selection and assortment. By meeting customers' needs in terms of merchandise availability, pricing, and the total shopping experience, Sears anticipates growth in revenues and profits into the future.

STATEMENT OF MANAGEMENT RESPONSIBILITY

Management is responsible for the accuracy, integrity and objectivity of the financial information contained in this Annual Report. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada and include certain amounts that are based on estimates and judgements. Financial information used elsewhere in the Annual Report is consistent with that in the financial statements.

Management has developed, maintains and supports an extensive program of internal audits that provides reasonable assurance that financial records are reliable and that assets are safeguarded.

The Board of Directors, through the activities of its Audit and Corporate Governance Committee, ensures that management fulfills its responsibilities for financial reporting and internal control. The Audit and Corporate Governance Committee, the majority of whom are outside directors, meets periodically with the financial officers of the Company, the internal auditors and external auditors to discuss audit activities, internal accounting controls and financial reporting matters. The Board of Directors, on the recommendation of the Audit and Corporate Governance Committee, has approved all of the information contained in the Annual Report.

The Company's external auditors, Deloitte & Touche, have conducted audits of the financial records of the Company in accordance with generally accepted auditing standards. Their report is as follows.

President and
Chief Operating Officer

Senior Vice-President and
Chief Financial Officer

AUDITORS' REPORT TO THE SHAREHOLDERS OF SEARS CANADA INC.

We have audited the consolidated statements of financial position of Sears Canada Inc. as at December 28, 1996 and December 30, 1995 and the consolidated statements of earnings, retained earnings and changes in financial position for the 52 weeks then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 28, 1996 and December 30, 1995 and the results of its operations and the changes in its financial position for the 52 weeks then ended in accordance with generally accepted accounting principles.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants
Toronto, Ontario
February 10, 1997

Consolidated Statements of Financial Position

As at December 28, 1996 and December 30, 1995 (in millions)	1996	1995
ASSETS		
Current Assets		
Cash and short-term investments (Note 3)	$ 201.2	$ 71.0
Charge account receivables (Note 4)	607.3	418.0
Other receivables (Note 5)	425.7	507.6
Inventories	491.1	507.1
Prepaid expenses and other assets	46.5	55.1
Short-term deferred income taxes	40.0	46.7
	1,811.8	1,605.5
Investments and Other Assets (Note 6)	29.6	15.2
Net Capital Assets (Note 7)	744.4	763.1
Deferred Charges (Note 8)	148.2	170.2
	$ 2,734.0	$ 2,554.0
LIABILITIES		
Current Liabilities		
Bank advances and short-term notes	$ 2.1	$ 1.9
Accounts payable	472.9	450.0
Accrued liabilities	324.9	300.9
Income and other taxes payable	87.7	64.6
Principal payments on long-term obligations due within one year (Note 10)	183.2	127.0
	1,070.8	944.4
Long-term Obligations (Note 10)	634.2	661.7
Long-term Deferred Income Taxes	80.3	91.5
	1,785.3	1,697.6
SHAREHOLDERS' EQUITY		
Capital Stock (Note 11)	448.3	342.0
Retained Earnings	500.4	514.4
	948.7	856.4
	$ 2,734.0	$ 2,554.0

Approved by the Board:

P.S. Walters
Director

J.M. Tory
Director

Consolidated Statements of Earnings

For the 52 weeks ended December 28, 1996 and December 30, 1995

(in millions, except per share amounts)	1996	1995
Total revenues	$ 3,955.9	$ 3,918.3
Deduct:		
Cost of merchandise sold, operating, administrative and selling expenses	3,712.1	3,669.4
Depreciation	77.5	74.4
Interest	96.3	131.9
	3,885.9	3,875.7
Earnings from operations before unusual items and income taxes	70.0	42.6
Unusual items (Note 12)	(45.0)	(20.8)
Earnings from operations before income taxes	25.0	21.8
Income taxes (Note 13)		
Current	9.4	6.7
Deferred	6.8	2.9
	16.2	9.6
Net earnings	$ 8.8	$ 12.2
Earnings per share	$ 0.09	$ 0.13

Consolidated Statements of Retained Earnings

For the 52 weeks ended December 28, 1996 and December 30, 1995

(in millions)	1996	1995
Opening balance	$ 514.4	$ 525.0
Net earnings	8.8	12.2
	523.2	537.2
Dividends declared	22.8	22.8
Closing balance	$ 500.4	$ 514.4

Consolidated Statements of Changes in Financial Position

For the 52 weeks ended December 28, 1996 and December 30, 1995 (in millions)	1996	1995
Cash Generated From Operations		
Net earnings	$ 8.8	$ 12.2
Non-cash items included in net earnings, principally depreciation	86.2	107.0
Funds from operations	95.0	119.2
Changes in working capital (Note 14)	183.2	30.8
	278.2	150.0
Cash Generated From (Used For) Investment Activities		
Purchases of capital assets	(63.2)	(76.3)
Proceeds from sale of capital assets	8.9	33.7
Charge account receivables	(189.3)	443.0
Deferred charges	(2.4)	(23.1)
Investments and other assets	(14.4)	(14.2)
	(260.4)	363.1
Cash Generated From (Used For) Financing Activities		
Issue of long-term obligations	100.0	126.3
Repayment of long-term obligations	(71.3)	(590.8)
Net proceeds from issue of capital stock	106.3	0.0
	135.0	(464.5)
Cash (Used For) Dividends	(22.8)	(22.8)
Increase in cash, net of bank advances and short-term notes	130.0	25.8
Cash, net of bank advances and short-term notes at end of year	$199.1	$ 69.1

Notes to Consolidated Financial Statements

1. SUMMARY OF ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Sears Canada Inc. and its subsidiaries together with the Company's proportionate share of the assets, liabilities, revenues and expenses of joint ventures.

Fiscal Year

The fiscal year of the Company consists of a 52 or 53 week period ending on the Saturday closest to December 31. The fiscal year for the consolidated statements presented is the 52 weeks ending December 28, 1996 and comparably the 52 weeks ending December 30, 1995.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined for retail store inventories by the retail inventory method and for catalogue order and miscellaneous inventories on an average cost basis applied to individual items.

Prepaid Advertising Expense

Catalogue production costs are deferred and amortized over the life of each catalogue on the basis of the estimated sales from the catalogue.

Deferred Receivables

Deferred receivables are charge account receivables that have not yet been billed to the customers' accounts. Service charges are not accrued on these accounts over the deferral period which ranges from six to thirteen months.

Capital Assets

Capital assets are stated at cost. Depreciation and amortization provisions are generally computed by the straight-line method based on estimated useful lives of 2 to 10 years for equipment and fixtures, and of 10 to 50 years for buildings and improvements.

The Company's proportionate share of buildings held in joint ventures is generally depreciated on a sinking fund basis over 20 to 40 years.

The Company capitalizes interest charges for major construction projects and depreciates these charges over the life of the related assets.

Deferred Charges

The cumulative excess of contributions to the Company's pension plan over the amounts expensed is included in deferred charges.

Debt issuance costs are deferred and amortized by the straight-line method to the due dates of the respective debt issues. Securitization set up costs are amortized on a straight-line basis over a maximum of five years.

Consulting fees for major projects are amortized on a straight-line basis over the period of future benefit, not to exceed three years, including the year incurred.

Certain other costs are deferred and amortized by the straight-line method over the remaining life of the related asset.

Foreign Currency Translation

Obligations payble in U.S. dollars are translated at the exchange rate in effect at the balance sheet date or at the rates fixed by forward exchange contracts.

Transactions in foreign currencies are translated into Canadian dollars at the rate in effect on the date of the transaction.

Pensions

The Company maintains a defined benefit, final average pension plan which covers substantially all of its regular full-time associates as well as some of its part-time associates. The plan provides pensions based on length of service and final average earnings.

Current service costs under the Company's pension plan are charged to operations as they accrue. The excess of the market value of pension fund assets over the actuarial present value of the accrued pension obligations as at January 1, 1986 and any surpluses or deficits arising since that date are amortized over the expected average remaining service life of the associate group covered by the plan. Actuarial valuations are calculated using the projected benefit method pro-rated on services, based on management's best estimate of the effect of future events (see Note 9).

The Company provides life insurance, medical and dental benefits to eligible retired associates. These benefits are accrued in the year that an associate retires. The accumulated obligation as at January 1, 1989, for previously retired associates, is being amortized over 10 years beginning January 1, 1989.

Earnings Per Share

Earnings per share is calculated based on the weighted average number of shares outstanding during the fiscal year.

2. FINANCIAL INSTRUMENTS

In the ordinary course of business, the Company enters into financial agreements with banks and other financial institutions to reduce underlying risks associated with interest rates and foreign currency. The Company does not hold or issue derivative financial instruments for trading or speculative purposes. The financial instruments do not require the payment of premiums or cash margins prior to settlement. The objectives of the financial instruments can be summarized as follows:

Foreign Exchange Rates

From time to time the Company enters into foreign exchange contracts to reduce the foreign exchange risk with respect to U.S. dollar denominated goods purchased for resale. There were no such contracts outstanding at the end of 1996 or 1995.

Securitization of Charge Account Receivables

Securitization is a significant financial instrument which provides the Company access to funds at a lower cost of financing. The Company sells undivided co-ownership interests in its portfolio of charge account receivables (excluding deferred receivables) to Sears Canada Receivables Trust (Trust 1) and Sears Canada Receivables Trust – 1992 (Trust 2) and undivided co-ownership interests in its portfolio of charge account receivables (including deferred receivables) to Sears Canada Receivables Trust – 1996 (Trust 3). Trust 1, Trust 2 and Trust 3 are collectively referred to as SCRT. No gain or loss has been recognized on these transactions. The Company retains the income generated by the undivided co-ownership interests sold to SCRT in excess of SCRT's stipulated share of service charge revenues (See Notes 4 and 5).

Interest Rate Swaps

The Company has utilized floating-to-fixed interest rate swaps to reduce the risk associated with the variable interest rates underlying the commercial paper issued by Trust 1.

3. CASH AND SHORT-TERM INVESTMENTS

Included in cash and short-term investments is an investment in a bond which was purchased for $108.1 million on December 16, 1996 and sold for $108.3 million on January 15, 1997.

4. CHARGE ACCOUNT RECEIVABLES

Details of charge account receivables are as follows:

(in millions)	1996	1995
Gross Charge Account Receivables	$1,568.5	$1,599.2
Less: Amounts Securitized[1]	(961.2)	(1,181.2)
Net Charge Account Receivables	$ 607.3	$ 418.0

[1] On November 1, 1996, Trust 3 purchased undivided co-ownership interests in charge account receivables, including deferred receivables. As at December 28, 1996, Trust 3 held undivided co-ownership interests consisting of $141.7 million of charge account receivables, which includes $97.6 million of deferred receivables. (Refer to Note 5)

5. OTHER RECEIVABLES

Other receivables consist of the following:

(in millions)	1996	1995
Gross Deferred Receivables	$ 456.1	$ 429.1
Less: Amounts Securitized[2]	(97.6)	–
Net Deferred Receivables	358.5	429.1
Miscellaneous Receivables	67.2	78.5
Total	$ 425.7	$ 507.6

[2] On November 1, 1996, Trust 3 purchased undivided co-ownership interests in charge account receivables, including deferred receivables. (Refer to Note 4)

6. INVESTMENTS AND OTHER ASSETS

(in millions)	1996	1995
Unsecured debentures	$ 20.1	$ 14.2
Subordinated loans	9.0	–
Other	0.5	1.0
Total	$ 29.6	$ 15.2

Unsecured debentures are due in the amount of $14.1 million in 2010 and $6.0 million in 2011. Subordinated loans are due in 2006. All bear interest at floating rates.

7. NET CAPITAL ASSETS

Capital assets are summarized as follows:

(in millions)	1996	1995
Land	$ 65.8	$ 65.7
Buildings and improvements	524.5	510.0
– held by joint ventures	256.2	255.8
Equipment and fixtures	598.2	570.6
Gross capital assets	1,444.7	1,402.1
Accumulated depreciation		
Buildings and improvements	261.8	250.1
– held by joint ventures	36.3	30.4
Equipment and fixtures	402.2	358.5
Total accumulated depreciation	700.3	639.0
Net capital assets	$ 744.4	$ 763.1

The carrying values of land and buildings are evaluated by management on an ongoing basis as to their net recoverable amounts. This is a function of their average remaining useful lives, market valuations, cash flows and capitalization rate models. Situations giving rise to a shortfall in the net recoverable amounts are assessed as either temporary or permanent declines in the carrying values, where permanent declines are adjusted. Management does not foresee adjustments in the near term.

8. DEFERRED CHARGES

(in millions)	1996	1995
Excess of pension contributions over amounts expensed, including contributions for post-retirement benefits of $4.8 million ($2.1 million – 1995)	$ 117.0	$ 134.6
Deferred consulting fees	4.4	11.3
Tenant allowances for proportionate interests in joint ventures	8.5	6.3
Debt issuance costs, including unamortized discounts	5.4	4.7
Securitization set up costs	1.2	2.9
Other deferred charges	11.7	10.4
Total deferred charges	$ 148.2	$ 170.2

9. PENSION PLAN

Selected financial information relating to the Company's pension plan is summarized as follows:

(in millions)	1996	1995
Pension plan assets at market value	$1,015.0	$ 900.0
Present value of accrued pension obligations	$ 701.0	$ 663.6

10. LONG-TERM OBLIGATIONS

(in millions)	1996	1995
SEARS CANADA INC.		
Unsecured Debentures:		
9.25% due Feb. 26, 1997	$ 100.0	$ 100.0
11.00% due May 18, 1999	150.0	150.0
11.70% due July 10, 2000	100.0	100.0
8.25% due December 11, 2000	125.0	125.0
7.80% due March 1, 2001	100.0	–
Proportionate share of long-term debt of joint ventures with a weighted average interest rate of 9.3% due 1997 to 2013	223.2	227.0
Capital lease obligations: interest rates from 8.0 % to 17.0%	19.2	20.3
	817.4	722.3
SEARS ACCEPTANCE COMPANY INC.		
Secured Debentures:		
15.125% Series V due April 1, 1996	–	66.4
	817.4	788.7
Less principal payments due within one year included in current liabilities	183.2	127.0
Total long-term obligations	$ 634.2	$ 661.7

The Company's proportionate share of the long-term debt of joint ventures is $223.2 million ($227.0 million – 1995), which is secured by the shopping malls owned by the joint ventures. Included in the Company's total principal payments due within one year is $81.8 million ($59.3 million – 1995) of the proportionate share of the current debt obligations of joint ventures.

Fair Valuation

The fair value estimate of the Company's long-term debt obligations, excluding principal payments due within one year, totals $713.9 million ($714.0 million – 1995), compared to carrying values of $634.2 million ($661.7 million – 1995).

Long-term obligations are valued based on quoted market prices when available, or discounted cash flows using interest rates currently available to the Company on similar borrowings. This determination excludes the impact of interest rate swaps that are in place. (Refer to Note 18)

Principal Payments

For fiscal years subsequent to the fiscal year ended December 28, 1996, principal payments required on the Company's total long-term obligations are as follows:

(in millions)	
1997	$ 183.2
1998	$ 5.2
1999	$ 155.5
2000	$ 239.8
2001	$ 103.5
Subsequent years	$ 130.2

Significant Financing Transactions

On July 24, 1995, Sears Canada Inc. issued $125.0 million of 8.25% unsecured debentures due December 11, 2000.

On July 28, 1995, the Company redeemed the outstanding 13.125% Series T secured debentures of Sears Acceptance Company Inc. in the amount of $14.0 million.

On January 5, 1996, Sears Canada Inc. issued $100.0 million of 7.8% unsecured debentures due March 1, 2001.

On April 1, 1996, the outstanding 15.125% Series V secured debentures of Sears Acceptance Company Inc. in the amount of $66.4 million matured.

On October 22, 1996, Sears Canada Receivables Trust – 1996 (Trust 3) was created. This new

financing vehicle allows the Company to securitize charge account receivables, including deferred receivables.

11. CAPITAL STOCK

An unlimited number of common shares are authorized. Changes in the number of outstanding common shares and their stated values since January 1, 1995 are as follows:

	1996		1995	
	Number of shares	Stated value (millions)	Number of shares	Stated value (millions)
Beginning Balance	94,946,372	$342.0	94,942,672	$342.0
Issued pursuant to stock options	340,728	2.4	3,700	0.0[3]
Issuance of shares	10,323,810	103.9	–	0.0
Ending Balance	105,610,910	$448.3	94,946,372	$342.0

[3] The proceeds from the issuance of 3,700 shares in 1995 at a stated value of $21,053.

On December 9, 1996, the Company issued 10,323,810 common shares for net proceeds of $103.9 million.

As at December 28, 1996, the following options have been granted and exercised under stock option plans:

Options granted	Option price	Expiry date	Options exercised	Options outstanding
578,400	$9.71	Jan. 1996	29,315	–
219,930	$9.07	Mar. 1997	61,540	158,390
184,675	$5.69	Feb. 1998	117,298	67,377
144,250	$7.53	Feb. 1999	52,225	92,025
206,200	$7.49	Feb. 2000	65,000	141,200
232,301	$5.58	Feb. 2001	124,890	107,411
273,955	$5.58	Feb. 2006	–	273,955

Options to purchase up to 291,600 common shares have been authorized to be granted under stock option plans in 1997.

The Company is authorized to issue an unlimited number of non-voting, redeemable and retractable Class 1 Preferred Shares in one or more series.

On July 27, 1996, the outstanding 6,320 Class 1 Preferred Shares, Series A and 8,000 Class 1 Preferred Shares, Series C were purchased by the Company for cancellation.

These Class 1 Preferred Shares were issued to subsidiary companies, and had no effect upon consolidation or reported earnings per share.

As at December 28, 1996, the only shares outstanding were the common shares of the Company.

12. UNUSUAL ITEMS

(in millions)	1996	1995
Costs related to the restructuring of business units and processes, including severance	$ (42.2)	$ (9.5)
Loss incurred on closure of buildings as a result of operational efficiencies	(6.2)	(16.5)
Gain on sale of real estate: In 1996, the Company sold two service centres. In 1995, a gain of $8.9 million from the sale of the Company's interests in three shopping centres was offset by a loss on the sale of a merchandise service centre	3.4	7.3
Write-off of cash registers replaced by the Sears Point of Contact terminals	–	(2.1)
Unusual items	$ (45.0)	$ (20.8)

13. INCOME TAXES

The average combined federal and provincial statutory income tax rate applicable to the Company was 43.2% for 1996 and 42.2% for 1995.

A reconciliation of income taxes at the average statutory tax rate with the actual income tax expense is as follows:

(in millions)	1996	1995
Earnings from operations before income taxes	$ 25.0	$ 21.8
Income taxes at average statutory tax rate	10.8	9.2
Increase (decrease) in income taxes resulting from:		
Prior year recovery	–	(5.0)
Non-taxable portion of capital gains	(0.1)	(0.2)
Non-taxable items	–	(0.2)
Non-deductible items	0.5	0.8
Income taxes before Large Corporations Tax	11.2	4.6
Large Corporations Tax	5.0	5.0
Income tax expense	$ 16.2	$ 9.6
Effective tax rate	64.8%	44.0%

Deferred income taxes arise from timing differences between tax and financial reporting. Short-term deferred income taxes relate principally to the reporting of such items as reserves for returns and allowances, and insurance provisions. Long-term deferred income taxes relate principally to the reporting of such items as depreciation expense and pension contributions by the Company.

14. CHANGES IN WORKING CAPITAL

The decrease (increase) in working capital is made up of changes in the following accounts:

(in millions)	1996	1995
Other receivables	$ 81.9	$ (45.0)
Short-term deferred income taxes	6.7	(16.0)
Inventories	16.0	51.6
Prepaid expenses and other assets	8.6	(14.6)
Accounts payable	22.9	44.4
Accrued liabilities	24.0	34.2
Income and other taxes payable	23.1	(23.8)
Net decrease in working capital	$183.2	$ 30.8

15. COMMITMENTS

Minimum capital and operating lease payments, (exclusive of property taxes, insurance and other expenses payable directly by the Company) having an initial term of more than one year as at December 28, 1996 are as follows:

(in millions)	Capital leases	Operating leases
1997	$ 3.1	$ 64.8
1998	2.9	58.8
1999	2.7	52.5
2000	2.7	48.3
2001	2.7	45.6
Subsequent years	19.6	471.4
Minimum lease payments	$ 33.7	$ 741.4
Less imputed interest	14.5	
Total capital lease obligations	$ 19.2	

Total rentals charged to earnings under all operating leases for the year ended December 28, 1996 amounted to $75.0 million ($100.8 million – 1995).

16. SEGMENTED INFORMATION

Segmented Statements of Earnings for the 52 weeks ended December 28, 1996 and December 30, 1995

	1996				1995			
(in millions)	Mdse.	Credit	Real Estate Joint Ventures[5]	Total	Mdse.	Credit	Real Estate Joint Ventures	Total
Total revenues[4]	$3,605.7	$292.4	$ 57.8	$3,955.9	$3,539.9	$315.9	$ 62.5	$3,918.3
Segment operating profit	27.0	109.1	30.2	166.3	(3.7)	144.8	33.4	174.5
Interest expense				96.3				131.9
Unusual items				45.0				20.8
Income taxes				16.2				9.6
Net earnings				$ 8.8				$ 12.2

Segmented Statements of Financial Position as at December 28, 1996 and December 30, 1995

	1996				1995			
(in millions)	Mdse.	Credit	Real Estate Joint Ventures	Total	Mdse.	Credit	Real Estate Joint Ventures	Total
ASSETS								
Cash	$ 199.4	$ –	$ 1.8	$ 201.2	$ 69.2	$ –	$ 1.8	$ 71.0
Total receivables	83.0	946.5	3.5	1,033.0	90.7	831.1	3.8	925.6
Inventories	491.1	–	–	491.1	507.1	–	–	507.1
Net capital assets	495.3	–	249.1	744.4	509.1	–	254.0	763.1
Other	235.1	22.3	6.9	264.3	265.5	17.9	3.8	287.2
Total assets	$1,503.9	$968.8	$261.3	$2,734.0	$1,441.6	$849.0	$263.4	$2,554.0
LIABILITIES								
Accounts payable	$ 464.1	$ 1.7	$ 7.1	$ 472.9	$ 444.3	$ 0.6	$ 5.1	$ 450.0
Accrued liabilities	302.2	22.2	0.5	324.9	266.7	31.6	2.6	300.9
Other	151.8	1.3	14.9	168.0	141.4	1.1	13.6	156.1
Total liabilities excluding debt	918.1	25.2	22.5	965.8	852.4	33.3	21.3	907.0
Capital employed	585.8	943.6	238.8	1,768.2	589.2	815.7	242.1	1,647.0
Capital expenditures	62.2	–	1.0	63.2	72.3	–	4.0	76.3
Depreciation and amortization	$ 71.6	$ –	$ 5.9	$ 77.5	$ 69.6	$ –	$ 4.8	$ 74.4

[4] The real estate joint venture revenues are net of $3.6 million ($3.8 million – 1995) representing the elimination of rental revenues earned from retail stores. Rental expense of the real estate joint venture segment has been decreased by the same amount having no effect on segment operating profit.

[5] The real estate joint ventures had cash generated from operations of $7.2 million ($11.6 million – 1995), cash used for investment activities of $4.4 million ($4.4 million – 1995), and cash used for financing activities of $3.6 million ($2.5 million – 1995).

17. RELATED PARTY TRANSACTIONS

Sears, Roebuck and Co. is the beneficial holder of the majority of the outstanding common shares of Sears Canada Inc.

During the year, the Company made payments to Sears, Roebuck and Co. in the ordinary course of business for shared merchandise purchasing services of $2.6 million ($2.3 million – 1995). These amounts are recorded in the cost of merchandise sold, operating, administrative and selling expenses.

The Company also paid Sears, Roebuck and Co. $19.2 million ($16.2 million–1995) and Sears, Roebuck and Co. paid the Company $4.8 million ($4.3 million – 1995) for other reimbursements at cost, primarily in respect of customer cross-border purchases made on the Sears Card, and the Sears, Roebuck and Co. charge card.

There were no significant commitments, receivables or payables between the companies at the end of 1996 or 1995.

18. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

The fair value estimates of financial instruments presented are not necessarily indicative of the amounts the Company might pay or receive in actual market transactions. Potential taxes and other transaction costs have also not been considered in estimating fair value.

Carrying value approximates fair value for financial instruments which are short-term in nature. These include cash and short-term investments, charge account receivables, other receivables, prepaid expenses and other assets, bank advances and short-term notes, accounts payable, income and other taxes payable, and principal payments on long-term debt due within one year. (Refer to Note 10 for the fair valuation of long-term obligations.)

Interest Rate Swaps

As at December 28, 1996, the Company had three interest rate swap contracts in place to reduce the risk associated with the variable interest rates on the commercial paper issued by Trust 1.

To fix the floating rates of interest associated with the commercial paper, the Company has entered into interest rate swap contracts in the following notional amounts:

(in millions)	1996	1995
9.21%, expiring April 1996	$ –	$ 100.0
9.32%, expiring April 1997	50.0	50.0
9.40%, expiring April 1999	100.0	100.0
9.54%, expiring April 2002	100.0	100.0
Total	$ 250.0	$ 350.0

The fair value of the interest rate swap contracts was a negative $32.7 million (negative $28.8 million – 1995), and was estimated by referring to the appropriate yield curves with matching terms of maturity. A negative fair value reflects the estimated amount that the Company would pay to terminate the contracts at the reporting date.

For the year ended December 28, 1996, a net interest differential of $12.8 million ($8.4 million – 1995) was paid on the floating-to-fixed interest rate swap contracts and was recorded as an increase of interest expense of the Company.

Concentration of Credit Risk

The Company's exposure to concentration of credit risk is limited. Accounts receivable are primarily from Sears Card customers, a large and geographically dispersed group.

19. COMPARATIVE FIGURES

Certain of the 1995 figures have been restated to conform to the current year's presentation.

In December, 1994, the Report of The Toronto Stock Exchange Committee on Corporate Governance in Canada recommended 14 guidelines for improved Corporate Governance which were adopted by The Montreal Exchange and The Toronto Stock Exchange.

The Corporation has considered the TSE Report and these guidelines in reviewing and formalizing its corporate governance practices. A Statement of Corporate Governance Practices has been prepared in accordance with the requirements of the Exchanges and is contained in the Management Proxy Circular of the Corporation.

The Board of Directors is responsible to oversee the business and affairs of the Corporation and to act with a view to the best interests of the Corporation, providing guidance and direction to the management of the Corporation in order to attain corporate objectives and maximize shareholder value.

The Board of Directors and the Audit and Corporate Governance, Compensation, and Nominating Committees of the Board are each responsible for certain corporate governance functions in accordance with their respective mandates. The Audit and Corporate Governance Committee is responsible for the development and review of the corporate governance approach and practices of the Corporation.

(As at March 3, 1997)

BOARD OF DIRECTORS

Michel F. Bélanger ■
Chairman of the Board, Avenor Inc.

Jalynn H. Bennett ◆
President, Jalynn H. Bennett and Associates Ltd.

James R. Clifford
President and Chief Operating Officer, Sears Canada Inc.

Harold Corrigan ◆ ●
Consultant

William A. Dimma ◆ ●
Corporate Director

Alan J. Lacy ◆
Executive Vice President and Chief Financial Officer, Sears, Roebuck and Co.

Jeanne E. Lougheed ■
Corporate Director

Arthur C. Martinez ■
Chairman of the Board, President and Chief Executive Officer, Sears, Roebuck and Co.

James W. Moir, Jr. ●
President and Chief Executive Officer, Maritime Medical Care Inc.

Alfred Powis ◆ ■ ●
Corporate Director

Anthony J. Rucci ■
Executive Vice President, Administration, Sears, Roebuck and Co.

James M. Tory ◆
Partner, Tory Tory DesLauriers & Binnington, Barristers & Solicitors

William R. Turner
Executive Vice-President, Merchandising and Logistics, Sears Canada Inc.

Paul S. Walters ■
Chairman of the Board and Chief Executive Officer, Sears Canada Inc.

COMMITTEES

■ Compensation ◆ Audit and Corporate Governance ● Nominating

HONORARY DIRECTORS

James W. Button
Former Senior Executive Vice President of Merchandising, Sears, Roebuck and Co.

C. Richard Sharpe
Former Chairman of the Board, Sears Canada Inc.

OFFICERS

Paul S. Walters
Chairman of the Board and Chief Executive Officer

James R. Clifford
President and Chief Operating Officer

Patricia E. Beaudoin
Senior Vice-President, Human Resources

H. Ray Bird
Senior Vice-President, Credit

John T. Butcher
Senior Vice-President and Chief Financial Officer

Raymond E. Connell
Senior Vice-President and Chief Information Officer

Brent V. Hollister
Executive Vice-President, Sales and Service

Richard W. Sorby
Executive Vice-President, Marketing

William R. Turner
Executive Vice-President, Merchandising and Logistics

Rudolph R. Vezér
Senior Vice-President, Secretary and General Counsel

SEARS CORPORATE INFORMATION

HEAD OFFICE

Sears Canada Inc.
222 Jarvis Street
Toronto, Ontario
Canada M5B 2B8

TRANSFER AGENT AND REGISTRAR

The R-M Trust Company
Toronto, Ontario
Montreal, Quebec

Answerline: (416) 813-4600 or 1-800-387-0825

Internet Address: www.rmtrust.ca (Web site)
or enquiries@rmtrust.ca (e-mail)

LISTINGS

The Montreal Exchange
The Toronto Stock Exchange

TRADING SYMBOL

SCC

ANNUAL MEETING

The Annual Meeting of Shareholders of Sears Canada Inc. will be held on Monday April 21, 1997 at 10:00 a.m. in the Burton-Wood Auditorium
Main Floor
222 Jarvis Street
Toronto, Ontario, Canada

FOR MORE INFORMATION

Additional copies of the Annual Report can be obtained through the Public Affairs Department at the Head Office of Sears Canada Inc.

For more information about the Company, write to Public Affairs, or call: (416) 941-4425

Internet Address: www.sears.ca (Web site)
or enquiries: home@sears.ca

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